

Message Text

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TAGS: ECON, EFIN, EINV, CA
SUBJ: ECONOMIC COUNCIL OF CANADA (ECC) THREE-YEAR
ECONOMIC FORECAST

REF: OTTAWA 5010

1. SUMMARY: ECC FORECAST STATES NEAR FULL EMPLOYMENT IS POSSIBLE IN CANADA BY 1979 IF GOC STIMULATES INVESTMENT TO POINT WHERE 5.7K PERCENT AVERAGE ANNUAL ECONOMIC GROWTH RATE IS POSSIBLE. ASSUMPTION THAT SUCH A GROWTH RATE IS POSSIBLE CONTRASTS WITH PESSIMISTIC FORECAST (THREE PERCENT GNP INCREASE FOR 1977) BY CONFERENCE BOARD IN CANADA REPORTED IN REFTEL. DIFFERENCES IN TWO FORECASTS IS DUE IN PART TO SHORTER-TERM PERSPECTIVE (ONE YEAR) AND MORE RECENT DATA USED BY CONFERENCE BOARD. END SUMMARY.

2. ACCORDING TO PRESS REPORTS ON THE ECC'S THIRTEENTH ANNUAL REVIEW, THE GOVERNMENT APPOINTED ECONOMIC ADVISORY GROUP HAS JOINED THE CHROUS CALLING FOR GOVERNMENT ACTION TO STIMULATE CANADA'S LAGGING ECONOMY. IN ORDER TO ACHIVE FULL EMPLOYMENT, THE COUNCIL SAID, A 5.7 PERCENT AVERAGE ANNUAL RATE OF
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ECONOMIC GROWTH WILL BE NEEDED. THE COUNCIL'S REPORT IS BASED ON STATISTICS COMPILED IN EARLY 1976, BEFORE THE SUMMER AND FALL PAUSE HIT THE WORLD ECONOMY, AND INITIALLY ASSUMED THAT A 5.7 PERCENT ANNUAL GROWTH RATE WAS POSSIBLE. HOWEVER, AS AN AFTERTHOUGHT PROMPTED BY A MORE RECENT OECD FORECAST, THE REPORT QUALIFIED

THIS OPTIMISTIC ASSESSMENT WITH THE COMMENT THAT IF ECONOMIC RECOVERY ABROAD IS NOT AS VIGOROUS AS EXPECTED, OR IF DOMESTIC INVESTMENT DOES NOT PROVIDE REINFORCEMENT TO CONSUMPTION AND EXPORTS NECESSARY TO SUSTAIN GROWTH, THEN MORE STIMULUS THAN IS SUGGESTED (BY EARLIER 1976 DATA) WILL BE NECESSARY IF THE CANADIAN ECONOMY IS TO REACH FULL EMPLOYMENT TARGET BY 1979.

3. QUALIFIED OPTIMISM OF COUNCIL'S FORECAST TO 1980 CONTRASTS SHARPLY WITH PESSIMISTIC SHORT-TERM FORECAST OF CONFERENCE BOARD IN CANADA (SEE REFTEL) RELEASED DECEMBER 20. ACTING COUNCIL CHAIRMAN GEORGE POST, SPEAKING AT A PRESS CONFERENCE, SAID HIS GOVERNMENT APPOINTED GROUP TOOK A LONGER-RANGE VIEW THAN THE INDEPENDENT CONFERENCE BOARD AND WAS MORE OPTIMISTIC THAN THE BOARD REGARDING PROSPECTS FOR GROWTH IN U.S. ECONOMY.

4. POST ALSO SAID COUNCIL MEMBERS AGREED THAT CONTINUING RESTRAINT WAS NECESSARY BUT THERE WAS NO CONSENSUS ON HOW LONG CONTROLS SHOULD LAST OR WHAT MEASURES SHOULD REPLACE THEM.

5. ACCORDING TO PRESS COVERAGE, COUNCIL'S REVIEW MADE FOLLOWING MAIN POINTS:

-- "WAGE AND PRICE PRESSURES ACCELERATED PRODUCTION COSTS TO AN ANNUAL RATE OF 12.3 PERCENT LAST YEAR FROM 3.7 PERCENT IN 1971, A TREND THAT COULD JEOPARDIZE THE COUNTRY'S ABILITY TO COMPETE IN INTERNATIONAL UNCLASSIFIED

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TRADE MARKETS."

-- "CANADIANS HAVE BEEN TOO LAVISH IN FOREIGN SPENDING, RUNNING UP DEFICITS IN INTERNATIONAL TRANSACTIONS THAT CAN BE BALANCED ONLY BY HEAVY BORROWING ABROAD."

-- "TAX REDUCTIONS AND WELFARE PAYMENT INCREASES IN LINE WITH THE COST OF LIVING CAN REDUCE INFLATIONARY PRESSURES AND PROMOTE FAIRNESS BUT ONLY AT THE EXPENSE OF REDUCING THE FEDERAL GOVERNMENT'S FREEDOM TO MANAGE THE ECONOMY."

-- "INFLATION ERODED THE PURCHASING POWER OF THE OLD BY \$165 BILLION OUT OF TOTAL PENSIONS OF \$1.5 BILLION IN 1974."

-- "ECONOMIC RECOVERY IN THE U.S. AND ABROAD AND ANTI-INFLATION TRENDS AT HOME INDICATE A REAL ECONOMIC

GROWTH, AFTER INFLATION IS DISCOUNTED, OF 5.7 PERCENT TO 1980, COMPARED WITH VIRTUAL STAGNATION RECENTLY. PRICES SHOULD MODERATE AND UNEMPLOYMENT DECLINE, BUT THE GROWTH IN SPENDING POWER OF INDIVIDUALS WILL NOT BE AS GREAT AS IN THE EARLY 1970S."

6. EMBASSY WILL SEND FURTHER COMMENT ON COUNCIL'S FORECAST IN SEPTTEL. COPIES OF FULL REPORT WILL BE FORWARDED TO DEPARTMENT BY AIRGRAM.
ENDERS

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